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## **Dairy and Products Semi-annual**

### **EU Dairy Sector finds stability after 2009 market interventions**

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**Report Highlights:**

This report covers USDA's EU analysts consensus view on the current dairy situation in Europe, offering highlights from selected member states. The EU dairy market continues to recover after 2009's drop in prices. This report offers a review of current policy and discusses various national situations for dairy across the European Union. The EU 27 dairy market in 2010 is expected to recover slowly after 2009's drop in prices and shift to market intervention. EU market conditions for dairy products started to recover in the third quarter of 2009. Dairy markets in Europe are a source of political turmoil, with farmers reacting for the first time to prices that are more market dominated, expressing with tractor protests their concern about the future. Prices are presently at historically average levels, and not reduced sufficiently that any new, major policy intervention will help when prices are already generally rising.

## **Executive Summary:**

The EU 27 dairy market in 2010 is expected to recover slowly after 2009's drop in prices and shift to market intervention. EU market conditions for dairy products started to recover in the third quarter of 2009. Rising world dairy prices will help in 2010, though price fluctuations are expected. The increase of farm-gate prices for raw milk is expected to continue in 2010 resulting in higher milk deliveries from farmers to processors. Most of the output increase is expected in Germany and France. As originally forecast by USDA EU analysts last October, due to high intervention and private storage stocks, the consensus view is that the dairy processing industry is expected to reduce non fat dried milk (NFDM) and butter manufacturing and shift towards cheese and whole milk powder (WMP) production. Butter intervention purchases will not resume in coming months, as butter prices remain competitive with world market prices. NFDM stocks are expected to decrease in 2010, in some part due to new EU assistance to the poor, but they will remain at a high level because world prices and competition from Oceania will prevent a significant increase of exports in 2010. Since the end of 2009 the confectionary industry has consistently asked the Commission that intervention stocks be released to reduce prices. The EU dairy industry generally expects that the Commission will gradually and cautiously release intervention stocks. A weaker Euro has made EU products like dairy more competitive on the world market since February 2010. Dairy markets in Europe are a source of political turmoil, with farmers reacting for the first time to prices that are more market dominated, expressing with tractor protests their concern about the future. Prices are presently at historically average levels, and not reduced sufficiently that any new, major policy intervention will help when prices are already generally rising.

## **DISCLAIMER**

The production, supply, and demand numbers in this report are not official USDA numbers. The numbers are the result of a group effort by the individual FAS/EU offices to consolidate PS&D's from all 27 European Union member states.

The authors of this report wish to recognize all our colleagues that helped with this report, and especially thank those who participated in the report meeting to discuss the numbers and the report content, as well as all who helped with the editing. The collaboration of the following FAS analysts

in the EU member states has been critical for the completion of this report:

Dana Biasetti and Sandro Perini from FAS Rome covering Italy

Mila Boshnakova from FAS Sofia covering Bulgaria

Monica Dobrescu from FAS Bucharest covering Romania

Bob Flach from FAS the Hague covering the Benelux

Marta Guerrero from FAS Madrid covering Portugal and Spain

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Sabine Lieberz from FAS Berlin covering Germany

Ferenc Nemes from FAS Budapest covering Hungary and Slovenia

Piotr Rucinski from FAS Warsaw covering Estonia, Latvia, Lithuania and Poland

Yvan Polet from FAS USEU covering European Commission data and policies

Note: the EU USDA analysts work as a team and note the departure in May 2010 from FAS/Dublin of Michael Hanley after 20 years of service to USDA. Mr. Hanley was an exemplary member of the combined USDA EU analytical team and his colleagues thank him for his service and wish him good health and good luck in his new future endeavors.

## **Policy**

### **National Government support for dairy production**

**German** dairy farmers benefit from a “Special program to master the crisis in agriculture”. A pasture premium amounts to approximately 37 Euro per hectare for a maximum of 3 hectares per cow. The premium is available in 2010 and 2011. The available budget for this measure include 111 million Euro from German funds plus 2 million Euro EU funds per year. A premium amounts to 21 Euro per cow for 2010 and 2011. This measure falls in the de-minimis rule, i.e. if a farm receives more than 7500 Euro in de-minimis aid in a three-year period, the premium will be reduced accordingly. The budget for this premium totals 85 million Euro in 2010 and 75 million Euro in 2011, and will be paid entirely with German funds.

The government of **France** in collaboration with the French dairy sector agreed to increase producer prices and to define new indicators to calculate these prices, one taking into account the Germany-France price differential, the second indicator considers the use of industrial products (butter and powders) and consumer-oriented products (such as cheese), and the third indicator will focus on milk production costs. In addition, the French government drafted a Farm Bill, to be voted on by the French Parliament shortly, that favors contracting between agricultural producers and processors, expands farmers' insurance system, and aims to balance producers and retailers commercial relations.

In **Romania** the government recently approved a new support scheme based on Article 68 part of Regulation 73/2009 for dairy farms located in less-favored areas. It is estimated that about 22.4 million Euro will be allocated in this regard for a number of approximately 345,000 cows (65 Euro/head).

In **Austria**, the government decided to defer the one percent increase of the Austrian milk quota (according to the Health Check) in 2009 and will not allocate the increased quota to Austrian dairy farmers but put in the national reserve. In order to soften the possible negative effects caused by the expiration of dairy quotas Austria provides dairy cow premiums to dairy quota farms. This measure is paid from article 68 funds at a level of 26 million Euro (12 million Euro EU-financed – unused funds plus 14 million Euro national funds) per year, and started in 2010. The dairy cow premium depends on the total number of cows per farm. A dairy cow premium is granted for up to 30 dairy cows. The premium is declining with the increasing number of dairy cows per farm. With this measure about 95 % of Austrian dairy cows receive a premium.

The scale of dairy cow premiums in 2010 is:

1<sup>st</sup> to 10<sup>th</sup> dairy cow: about 62 Euro per cow

11<sup>th</sup> to 20<sup>th</sup> dairy cow: about 40 Euro per cow

21<sup>st</sup> to 30<sup>th</sup> dairy cow: about 30 Euro per cow

30<sup>th</sup> and further dairy cows: no dairy cow premium is granted

### **State of progress of the High Level Expert Group on Milk**

The High Level Expert Group on Milk (HLG) was created in October 2009 in reaction to continued dairy producer complaints against the EC's perceived failure to curb the deep dairy crisis. The dairy crisis hit as the dairy reform agreed in the Health Check was implemented and pressure from farmers led to a 22 EU Member State block, under French leadership, seeking strong remedies. The

HLG is expected to publish its final report in June 2010, which might create a proposal for new measures in the dairy sector by the end of 2010. This is just when the current rise in prices might peak, offsetting the call for more support.

Most member states, including new EU Agricultural Commissioner Dacian Cioloș, have reiterated their support for the ending milk production quota in 2015. The mini dairy reform as decided in the Health Check is unlikely to be reversed. The EU proposal in the Doha Round to end export subsidies in 2013 still stands. Increasingly voices are being raised as a result of the recent dairy crisis to maintain the remaining market management tools of intervention storage and Private Storage Aid. Support is also building to maintain direct payments to dairy farmers which is controversial since it is available only in the old EU 15 member states, but not EU-wide.

New measures may be intent on curbing price volatility; increase market chain transparency to benefit farmers, processors and consumers; increase dairy farmers' bargaining power and stimulate the competitiveness of EU dairy processing sector as a whole. New solutions are likely to include private initiatives as well as EU legislative measures. The creation of a futures market for dairy products could be a private initiative with the intention to reduce market volatility. The group might recommend enhancing food price monitoring to increase transparency throughout the dairy chain, or by extension the whole food chain including retail.

Farmers' bargaining power could be strengthened through the establishment of contractual arrangements between producers and the dairy industry. These arrangements could include guidelines and general principles about price, quantities, or contract lifetimes. To avoid problems with EU competition rules, minor exemptions could be provided to producer organizations. Farmer groups could negotiate a uniform price and be exempt from EU competition rules, when their combined market share is less than 5 percent or when their aggregate turnover is less than €40 million. As an example, the joint marketing of raw milk through collective agreements could be accepted if they do not involve, directly or indirectly, any price fixing and farmers who participate in the agreement have a market share of the relevant market that doesn't exceed 15 percent.

This new dairy reform package at the end of 2010 will however not shield the EU dairy sector from potential further reform under the post 2013 budget and CAP reform.

#### **Related reports**

State of progress of the High Level Expert Group on Milk	5/12/2010	<a href="#">State of progress of the High Level Expert Group on Milk Brussels USEU EU-27 5-12-2010</a>

High Level Expert Group on Milk Prepares Future EU Dairy Policy.	1/29/2010	<a href="#">High Level Expert Group on Milk Prepares Future EU Dairy Policy. Brussels USEU EU-27 1-29-2010</a>
EU halts all export subsidies for dairy; expands dairy fund	12/1/2009	<a href="#">EU halts all export subsidies for dairy; expands dairy fund Brussels USEU EU-27 11-30-2009</a>
European Commission halts export subsidies except for butter	11/19/2009	<a href="#">European Commission halts export subsidies except for butter Brussels USEU EU-27 11-17-2009</a>
EU27 Dairy and Products 2009 Annual Report	16/11/2009	<a href="#">EU-27 DAIRY AND PRODUCTS ANNUAL Warsaw Poland EU-27 10-30-2009</a>

These reports can be accessed through website <http://useu.usmission.gov/agri/> or through the FAS website <http://www.fas.usda.gov/scripts/attacherep/default.asp>.

### Commodities:

Dairy, Milk, Fluid

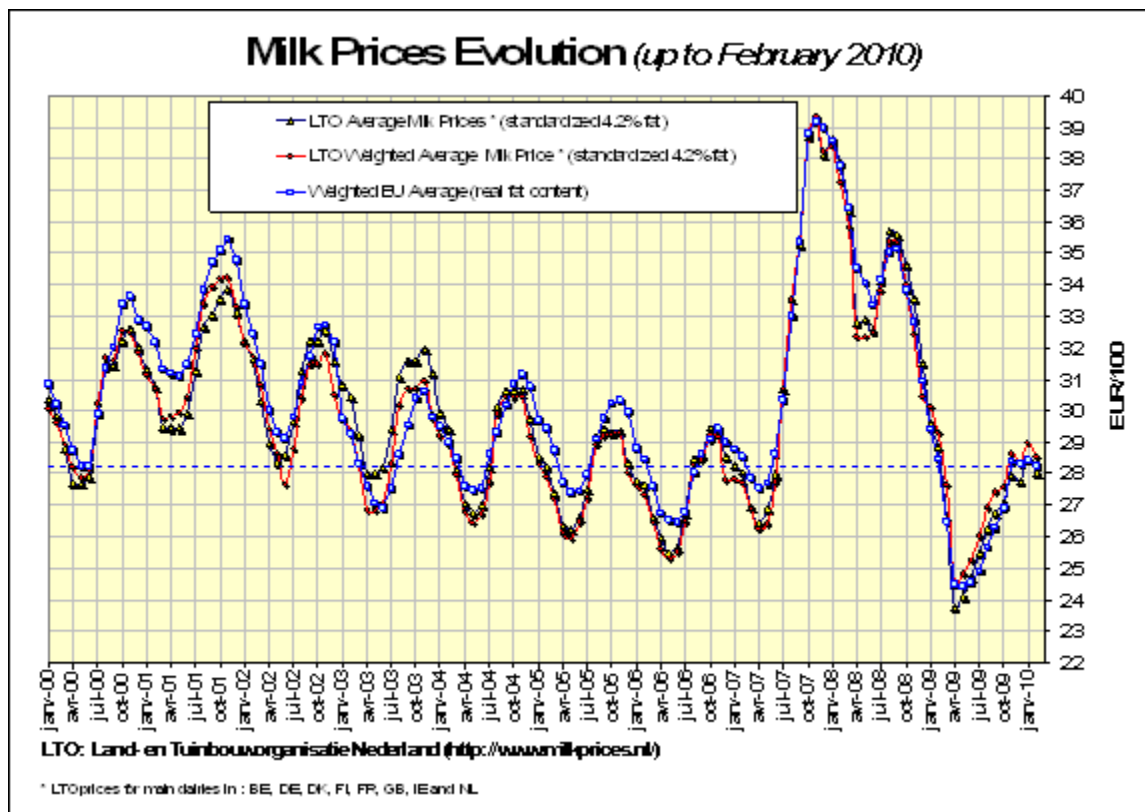
### Production, Supply and Demand Data Statistics:

PSD Table

Country:	EU-27					
Commodity:	Dairy, Milk (1000 Head / 1000 MT)					
	2008		2009		2010	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2008		01/2009		01/2010	
Cows In Milk	24,176	24,176	24,248	24,192	24,000	23,662
Cows Milk Deliveries to Dairies	133,848	133,848	133,800	133,700	134,000	134,000
Other Milk Production	4,000	4,000	4,015	4,020	4,020	4,020
Total Milk Production	137,848	137,848	137,815	137,720	138,020	138,020
Extra EU27 Imports	7	7	7	15	7	10
<b>TOTAL SUPPLY</b>	<b>137,855</b>	<b>137,855</b>	<b>137,822</b>	<b>137,735</b>	<b>138,027</b>	<b>138,030</b>
Extra EU27 Exports	166	166	150	171	150	170
Fluid Use Dom. Consum.	33,744	33,744	33,800	33,700	33,800	33,700
Factory Use Consum.	103,945	103,945	103,872	103,864	104,077	104,160
Feed Use Dom. Consum.	0	0	0	0	0	0
Total Dom. Consumption	137,689	137,689	137,672	137,564	137,877	137,860
<b>TOTAL DISTRIBUTION</b>	<b>137,855</b>	<b>137,855</b>	<b>137,822</b>	<b>137,735</b>	<b>138,027</b>	<b>138,030</b>

Author Defined:

In 2010, milk production is expected to slightly increase in comparison to 2009 returning to a long-term positive trend of dairy production. Milk production is expected to increase despite reduced inventories as an average milk yield per cow is expected to increase in 2010. In response to the drop of raw milk prices in 2009, many farmers reduced herd size culling worst cows which resulted in an increase of average milk yield per cow. After bottoming out in mid-2009, dairy market prices started to recover in late 2009 and early 2010. The EU is expected to reduce butter and NFDM stocks mostly through government assistance programs to poor people, however, NFDM stocks are expected to remain at the high level during 2010. Fluid use of milk by industry is expected to remain at the 2009 level. Despite an expected slight increase in production the enlarged dairy quota is not expected to be filled as it was in 2008/2009. Factory use is expected to slightly increase in 2010 due to increased milk production.



Source: European Commission

**Germany** implemented its CAP Health Check dairy quota increase and farmers made use of it. April 1, prices for trading dairy quota dropped to an all-time low of 10.54 Cent/kg (a drop of 7.5 cent/kg compared to the previous auction in November 2009). In 2009, **France's** milk deliveries to dairies plunged by 4 percent, one of the strongest declines among member states. During MY 2009/10, France under-utilized its production quota (as was the case in the previous years) by 1.4 million MT. French dairy farmers reduced their herd significantly, as indicated by the 5 percent increase in dairy cow slaughter in 2009. As a result, the French dairy herd declined by 3 percent to 3.7 million heads in December 2009. France has begun to import packaged milk from Germany. In 2010, prospects are looking good for higher milk deliveries at 23.1 million MT, as a result of stronger and less volatile producer prices, due to national

measures taken in April by the government of France in collaboration with the French dairy sector. In the **Netherlands**, and to a lesser extent Belgium, dairy farmers are eager to increase their milk production. The new liberal EC policy is expected to stimulate Benelux dairy farmers to invest in production. Given present milk prices it is not expected that Benelux milk production will exceed the quota significantly this season. Feed prices remained at a high level, costing farmers more. In **Spain**, dairy cow inventories continued to decline in 2009. less efficient producers are leaving the dairy industry. Despite an increase in the milk quota for 2009/2010, milk production declined and, once again, total quota allocated to Spain was not fulfilled. The year 2009 concluded with lower production than expected. A slight recovery is foreseen for 2010, driven by better prices and reduced price volatility due to purchasing contracts. Milk prices began to recover in August 2009, coinciding with enforcement of an official sale and purchase contract for milk. As farmers are reducing the quality of animal feed, milk delivered during 2009 had a lower fat content. While fluid use remains fairly stable, factory use is declining due to growing competition from processed products. In **Italy**, after long negotiations, milk prices to be paid to the breeders have been agreed at 33.2 Euro cents per liter for January-June 2010 in the Lombardy region, which is the leading milk producing region in Italy. This price represents a very slight increase compared to the 32.8 cents paid in 2009 and remains well below the level of 38.4 cents received by the farmers in 2008. In the **United Kingdom** milk production is continuing its long term decline but is outpaced by the reduction in herd size. Since generally the less efficient producers are stopping production, yield per cow is rising. In 2010, factory use of milk has fallen faster than fluid use, the latter attracting good prices. In **Bulgaria**, a significant reduction in the number of dairy cows and milk production was reported in 2009, declining six percent compared to the same period a year before. The trend in the reduction of dairy cows is expected to continue in 2010. The country is expected to experience slight growth in milk deliveries due to an increased role of bigger farms which are oriented more towards the commercial market activity instead of just household production. New challenges will arise as farms will be allowed to process milk and sell dairy products on local markets which will reduce on-farm consumption and support the shift to a modern market orientation. In **Romania**, the dairy inventory is expected to continue its declining trend in 2010, with a reduction of six percent in the number of cows in active milking due to the continuing sector restructuring, but the reduction is most notable among subsistence farms. Milk deliveries are projected to be lower in 2010 than previously anticipated, given the drop in consumption and increase of milk imports. Despite the lower deliveries, fluid use of domestic consumption grew in 2009, as consumers prefer better packaged milk and they become more aware of the risks of purchasing milk from an open market. Deliveries of milk to dairies in the **Czech Republic** have been steadily declining. A significant drop started in the last three months of 2008, when producers' prices dropped and continued through out the first half of 2009 until producer prices picked up. Only eight five percent of the Czech dairy quota was used in 2009. Total **Austrian** milk deliveries to dairies in 2009 decreased by a minuscule 0.3 percent. In **Poland**, milk deliveries to dairies in 2010 are expected to remain at the 2009 level. There is a continuing trend in decreasing milk production for direct sales which in 2009 amounted to 2,450,000 MT and was two percent lower than a year ago.

## **Consumption**



In **France**, the reduced milk supply resulted in lower milk domestic consumption and factory use. In 2009, France's dairy processing declined for butter, cheese, milk powders, casein, and whey. The only increase recorded was for fresh cheeses (2.2 percent), yogurts (1 percent), and cream (1 percent). In **Italy**, domestic consumption of dairy products is still affected by the general economic crisis, but at a lesser extent than other food sectors. Prospects for 2010 indicate a substantial steadiness of most dairy productions. In **Bulgaria**, lower availability and reduced purchasing power negatively affected local consumption which dropped to record low levels. The **Austrian** per capita consumption of fluid milk in 2008 accounted for 88.3 kg per year. Per capita consumption of butter was at 4.9 kg, and cheese consumption (including cream cheese and curd cheese) at 19.4 kg per year. **Czech** consumption of milk and dairy products has been gradually growing. Fluid milk consumption has been now encouraged by direct milk sales through fresh milk vending machines. These were started in fall of 2009, increased the direct milk sales by 21 % and by now there are more than 100 of them. After an increase in 2009, consumption of milk and milk products in **Poland** is expected to stabilize in 2010. New domestic demand will draw down surpluses for exports as the economy continues to grow, stabilizing domestic consumption.

## Trade

In 2010, external EU27 exports of fluid milk are expected to remain at the 2009 level.

## Commodities:

Dairy, Cheese

## Production, Supply and Demand Data Statistics:

PSD Table

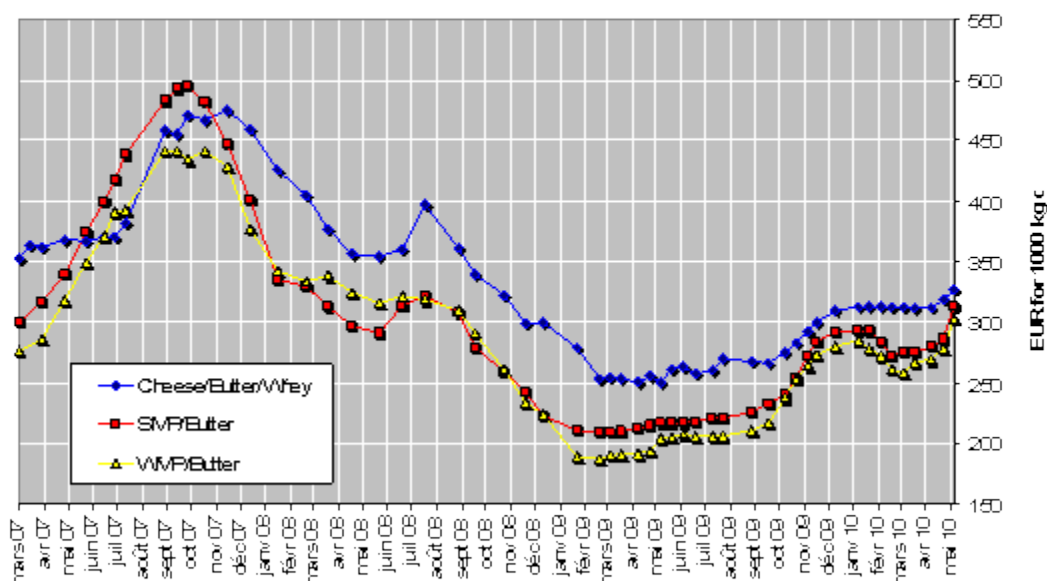
Country:	EU-27					
Commodity:	Dairy, Cheese (1000 MT)					
	2008		2009		2010	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2007		01/2008		01/2009	
Beginning Stocks	0	0	0	0	0	0
Production	6,800	6,800	6,730	6,810	6,800	6,830
Extra EU27 Imports	83	83	85	81	85	80
<b>TOTAL SUPPLY</b>	<b>6,883</b>	<b>6,883</b>	<b>6,815</b>	<b>6,891</b>	<b>6,885</b>	<b>6,910</b>
Extra EU27 Exports	490	490	470	510	475	530
Domestic Consumption	6,393	6,393	6,345	6,381	6,410	6,380
Other Use, Losses	0	0	0	0	0	0
<b>TOTAL Dom. Consumption</b>	<b>6,393</b>	<b>6,393</b>	<b>6,345</b>	<b>6,381</b>	<b>6,410</b>	<b>6,380</b>
Ending Stocks	0	0	0	0	0	0

TOTAL DISTRIBUTION	6,883	6,883	6,815	6,891	6,885	6,910
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### Author Defined:

In 2010, cheese production is expected to increase due to growing demand resulting from the global economic recovery. Margins for cheese production in the EU27 recovered in early 2010 which might be a good indicator of better conditions for the dairy industry. Without heavy Commission intervention, the EU dairy industry trends towards increasing cheese production. Domestic consumption of cheese in 2010 will still be affected by the persisting financial crisis in Europe, but conditions will be better than 2009. Cheese imports are forecast to remain at a low level due to growing domestic supplies. Exports are forecast to increase in 2010 due to growing world demand, however, they will depend mainly on the Euro/US\$ exchange rate.

**EU Income of manufacturing of Cheese/Wheypowder, SMP/Butter and WMP/Butter in EUR** *(changed time series of cheese prices)*



Source: European Commission

In **Germany**, for 2010 a further increase in production is expected as commercial stocks are depleted and the weaker Euro will fuel export demand. Cheese is a main driver of the **French** dairy industry. France's cheese production decreased by 4 percent in 2009 to 1.18 million MT, as a result of reduced domestic milk supplies. Total consumption remained relatively stable at 880,000 MT, as imports from other member states increased (mainly from Germany and the Netherlands). This reflects a slight decline in household purchases, despite lower retail prices, and a higher use of cheese for processing by the food industry to prepared processed meals. In 2010, cheese production is expected to bounce back. During 2009, **Benelux**'s larger processors preferred to produce NFDm and butter for intervention. However, slacking EU and domestic demand resulted in high commercial stocks of cheese. During the first four months of 2010, traders have commented that the demand for cheese is growing. As a consequence, the margin on cheese production has improved during the past half year. As more milk is being used for the

production of cheese, the supply for powder production is tightening. The sector believes that cheese, in particular branded cheese, will be the main dairy product in which the EU can compete on the world market. During 2010, Benelux cheese production and third country exports are expected to recover slightly. In **Spain**, while overall consumption of cheese is growing, driven by increased imports, domestic cheese production is declining. In **Italy**, the overall market situation is showing the first signs of a partial recovery after a long period of stagnation. Leading Italian cheese prices (Parmigiano Reggiano and Grana Padano) during the first months of 2010 have been increasing remarkably, recovering from low levels in 2009. In **Bulgaria**, cheese production in 2009 was sharply down due to the shortages of raw milk and reduced consumer purchases. The trend was especially alarming over the last 4 months of 2009 and is still continuing into 2010. This trend is expected to turn around eventually by summer 2010 to register slight growth this year. In **Romania**, dairy cheese production declined in 2009 and is expected to marginally decline further in 2010, as a result of drop in consumption.

Hungary, Germany, and most recently Bulgaria, are the main exporters. Production of cheese in the **Czech Republic** strengthened because of significantly increased markets for its products in other parts of the EU. Domestic consumption of cheese also is increasing, likewise other dairy products, except for NFDM. Output of cheese in **Poland** is expected to remain at the 2009 level. Retail prices for hard cheese in Poland are often uncompetitive with prices for processed pork products which will stimulate substitution of cheese for pork within the lower income part of the society.

## Commodities:

Dairy, Butter

## Production, Supply and Demand Data Statistics:

PSD Table

Country:	EU-27					
Commodity:	Dairy, Butter (1000 MT)					
	2008		2009		2010	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2008		01/2009		01/2010	
Beginning Stocks	46	46	53	53	130	103
Production	2,040	2,040	2,090	2,030	2,060	2,000
Extra EU25 Imports	66	66	65	63	65	60
<b>TOTAL SUPPLY</b>	<b>2,152</b>	<b>2,152</b>	<b>2,208</b>	<b>2,146</b>	<b>2,255</b>	<b>2,163</b>
Extra EU25 Exports	153	153	140	148	175	170
Domestic Consumption	1,946	1,946	1,938	1,895	1,950	1,927
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	1,946	1,946	1,938	1,895	1,950	1,927
Ending Stocks	53	53	130	103	130	66
<b>TOTAL DISTRIBUTION</b>	<b>2,152</b>	<b>2,152</b>	<b>2,208</b>	<b>2,146</b>	<b>2,255</b>	<b>2,163</b>

**Author Defined:**

EU 27 butter production is forecast to decrease in 2010 as increased milk output will be used mostly for cheese production. Imports are forecast to remain stable due to high intervention stocks. Exports are expected to recover as high stock levels will make EU butter more competitive on the world market. Domestic consumption is forecast to recover after its 2009 decline in response to higher demand created by the governmental assistance programs to needy people.

In **Germany**, for 2010 more milk is going into cheese, so butter production is down.

In 2009, butter production in **France** decreased by 5 percent to 414,000 MT, due to the lower availability of milk and lower market prices. France is a net importer of butter, used both by households and by the food industry. Domestic consumption has eroded gradually in the past years, due to consumers' dietary concerns. In 2009, French household consumption of butter was relatively stable, despite a 6 percent decline in retail prices. In 2010 butter production in France is expected to continue to decline, due to recovering cheese production, and as beginning stocks are relatively high. Since 2006, **Benelux** butter and butter oil production has been increasing due to the expanding milk deliveries, stagnating cheese production and lower milk fat content of consumer products. At the same time, subsidies for the use of butter in the processing industry have been limited. In 2010, butter and butter oil production is expected to decline due to recovering cheese and WDM production. Domestic consumption and exports are forecast to recover due to the improving economic situation. In **Spain**, lower milk prices discouraged domestic production and, as a consequence, 2009 butter production was lower. A slight increase in butter production is foreseen for 2010, following the upward trend expected in milk production. Intervention stocks in 2010 will be turned over to the Government's food aid plan for the poor. In **Romania**, production is forecast to constantly increase at an average rate of 9 to 10 percent per year. Consumption was drastically down in 2009 due to economic challenges but will resume its growth in 2010. Production is forecast to increase in 2010, along with intra-EU imports. Poland, Bulgaria and Slovak Republic are the leading suppliers. In **Poland**, production of butter is expected to decrease in 2010, due to increased use of milk fat for production of ice cream, yogurts and fluid consumption.

**Stocks**

In May 2010, butter stocks amounted to 113,563 MT, compared to 103,316 MT in December 2009. Total butter stocks consisted of 75,873 MT of intervention stocks and 37,690 MT of butter in private storage. The reduction of butter stocks in 2010 will result mainly from government assistance programs to poor people which will allow authorities to distribute 51,500 MT of butter from intervention stocks from May to September 2010.

**Trade**

In the first four months of 2010, exports of butter increased by 30 percent in comparison to 2009. It is expected that exports will continue to rise later in 2010, however their level will depend on the Euro/US\$ exchange rate.

**Commodities:**

Dairy, Milk, Nonfat Dry

**Production, Supply and Demand Data Statistics:****PSD Table**

<b>Country:</b>	<b>EU-27</b>					
<b>Commodity:</b>	<b>Non Fat Dried Milk (1000 MT)</b>					
	<b>2008</b>		<b>2009</b>		<b>2010</b>	
	Old	New	Old	New	Old	New
<b>Calendar Year Begin</b>	<b>01/2008</b>		<b>01/2009</b>		<b>01/2010</b>	
Beginning Stocks	0	0	0	0	280	259
Production	980	980	1,080	1,080	1,020	1,020
Extra EU25 Imports	8	8	5	6	5	5
<b>TOTAL SUPPLY</b>	<b>988</b>	<b>988</b>	<b>1,085</b>	<b>1,086</b>	<b>1,305</b>	<b>1,284</b>
Extra EU25 Exports	179	179	165	230	225	240
Domestic Consumption	809	809	640	597	800	844
Other Use, Losses	0	0	0	0	0	0
<b>TOTAL Dom. Consumption</b>	<b>809</b>	<b>809</b>	<b>640</b>	<b>597</b>	<b>800</b>	<b>844</b>
Ending Stocks	0	0	280	259	280	200
<b>TOTAL DISTRIBUTION</b>	<b>988</b>	<b>988</b>	<b>1,085</b>	<b>1,086</b>	<b>1,305</b>	<b>1,284</b>

**Author Defined:**

NFDM production is expected to decrease in 2010 due to the lower availability of raw milk for manufacturing as growing milk production will be directed mostly for production of cheese. Low prices and high stocks are expected to stimulate domestic consumption and exports.

In 2009, intervention measures put in place by the European authorities favored **France's** NFDM production, at the expense of whole milk powder (WMP) production. This was due to more attractive intervention prices for NFDM than export prices and opportunities to WMP. In 2009, French NFDM production increased by 5 percent to 303,000 MT, of which 21 percent was taken off the market as intervention stocks. Despite export restitutions, French exports to non-EU countries went down to 33,000 MT. In 2010, French NFDM production is expected to decline to 290,000 MT, due to high intervention stocks. During 2009, **Benelux** NFDM production increased considerably, as processors were inclined to produce for intervention. At the same time, subsidies for the use of NFDM in the feed and food industry have been limited. This resulted in high intervention stocks. Traders anticipate the Commission will release its stocks carefully to prevent major price reductions. As a result of high intervention stocks, Benelux NFDM production is expected to decline in 2010. However, as commercial stocks are low and the demand by EU food processors for fresh product is not fully covered, traders

describe the current domestic market situation as tight. Industry contacts say the demand for their milk powders is growing in Asia, in particular China. Traders expect that the world market situation will remain tight as the season in Oceania and South America ended, while their stocks are on a low level already. In 2009, **Spain's** production of NFDM rose compared to 2008. As consumption remains stable, higher domestic production during 2009 resulted in lower import needs. Intervention stocks for 2010 will be used in the food aid plan for the neediest people. In **Romania**, the drop in milk powder production is due to the restructuring and modernization of the main dry milk processor for 2009. It is expected that in 2010 NFDM production will resume and reach the previous year's level. In the **Czech Republic** NFDM production has been significantly declining as well as its exports and consumption. Production of NFDM in **Poland** is expected to continue its downward trend in 2010 due to high level of intervention stocks and growing use raw milk for fermented products.

## Stocks

In May 2010, EU27 NFDM stocks amounted to 256,336 MT, compared to 259,159 MT in December 2009. It is expected that the EC will reduce the stocks by 60,000 MT in 2010 within the assistance program for needy people, however stocks will remain at a high level in order to avoid drop of milk prices. In March 2010 started the regular 2010 public intervention period for the maximum amount of 109,000 MT at a fixed price. There is no interest in selling for intervention stocks as export prices remain at a high level.

## Trade

It is expected that EU27 exports will increase in 2010 as a result of higher demand from Asian markets.

## Commodities:

Dairy, Dry Whole Milk Powder

## Production, Supply and Demand Data Statistics:

PSD Table

Country:	EU-27					
Commodity:	Dairy, Whole Milk Powder (1000 MT)					
	2008		2009		2010	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2008		01/2009		01/2010	
Beginning Stocks	0	0	0	0	0	0
Production	840	840	790	790	810	800

Extra EU25 Imports	1	1	0	1	0	0
<b>TOTAL SUPPLY</b>	<b>841</b>	<b>841</b>	<b>790</b>	<b>791</b>	<b>810</b>	<b>800</b>
Extra EU25 Exports	485	485	465	460	465	480
Domestic Consumption	356	356	325	331	345	320
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	356	356	325	331	345	320
Ending Stocks	0	0	0	0	0	0
<b>TOTAL DISTRIBUTION</b>	<b>841</b>	<b>841</b>	<b>790</b>	<b>791</b>	<b>810</b>	<b>800</b>

#### **Author Defined:**

In 2010, production and domestic consumption of whole milk powder (WMP) are forecast to recover because of higher milk supplies. Exports are expected to remain at the 2009 level.

**France's** whole milk powder production decreased by 27 percent in 2009, switching mostly to NFDM production. French production of WMP was the lowest since 1999. French exports to non-EU countries of WMP were limited by the reduced domestic supply, and France did not benefit from the higher international EU exports of NFDM. During 2009, domestic **Benelux** WMP prices declined more strongly than NFDM prices due to the absence of intervention. Since January 2009, the margins on NFDM and butter production have been higher than on the production of WMP. Compared with the NFDM price development, WMP prices increased as a result of the recovery of the world economy and low supply from Oceania. Due to the absence of intervention stocks and improving demand, WMP prices are expected to increase relative to NFDM prices this year. If EU exports of WMP do increase, contrary to expectations, then it is the Benelux countries that are poised to benefit the most. WMP production in **Czech Republic** has been declining due to limited exports and higher imports from neighboring countries.